

BUILDER

THE MAGAZINE OF THE NATIONAL ASSOCIATION OF HOME BUILDERS/INCORPORATING HOUSING MAGAZINE
OCTOBER 1984

01124469231H
JAN LONG
CONGRESSIONAL INFO SERV
4120 E. HIGHWAY STE 800
BIRMINGHAM AL 35204

SAMPL JUN67
X45
CIF
NO 20814



BUILDER

COLUMNS

- 5 About Building
- 22 Money
- 28 Marketing

DEPARTMENTS

- 11 Outlook
- 190 Sketchbook
- 196 Shoptalk
- 203 NAHB Report
- 210 New Products
- 226 Product News
- 238 Ad Index
- 240 Mail

NEWS

- 48 U.S. Home reports loss, realigns officers
- 49 Score one for the small, hometown builder
- 49 New FHA program helps multifamily projects
- 54 ARMs are under control
- 58 Mortgage insurers are getting nervous
- 58 Signs of the times
- 60 Ryland moves into Baltimore's inner city
- 60 One-stop shopping comes to home building
- 66 New mortgage loan guarantees lower rates
- 66 HUD sets levels for formaldehyde in homes
- 72 Builder slashes costs with innovative homes
- 72 Builder helps kids learn about building
- 78 Builder models homes after old mansions
- 80 Builders battle tough, new energy standard
- 84 Carters help renovate New York tenement
- 90 Gentrification is back
- 96 Cenvill gives big play to child care centers
- 102 Rental market improves in Sunbelt cities
- 102 Mortgage revenue bonds boom
- 108 Rising rates won't sink home buyers
- 108 Real estate investors are in for the long term
- 108 Mobile home lending under federal study

35



Photo: Copyright Roddrey E. Nunn/Uniphoto

120



35—THE ELECTION: HOW WILL HOUSING FARE?

A special eight-page report on next month's presidential election, with housing policy statements from both parties, the opposing views of a builder who supports Reagan and another who supports Mondale, an analysis of key Congressional races and major, upcoming housing-related legislation and the results of an exclusive political survey of 500 builders.

120—1984 BUILDER'S CHOICE DESIGN AND PLANNING AWARDS

The competition was keen in the fourth annual Builder's Choice awards program. There were a record number of entries, 754, making the judges' job especially difficult. After two days of reviewing the entries, they recognized 57 for excellence in design and planning and selected one, Windward Harbor in New Hampshire, as project of the year. All the award winners are featured in this issue; together they set a standard for design excellence for the housing industry.

(Cover: Windward Harbor, Centre Harbor, N.H. Photo: Copyright 1984 Cymie Payne)

THE BUILDER INDEX



Source: NAHB Economics Division

After four sharp declines the BUILDER Index leveled off at 74.08 in August. Still it was at the lowest level in almost two years.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The BUILDER Index is updated monthly.

Reaganomics In Review

Michael Sumichrast

NAHB chief economist, Washington, D.C.

With the presidential election just a month away, it seems appropriate to review the Reagan administration's record on the economy. That can be done in many ways, but let's use gross national product (GNP) data to compare the economy during the fourth quarter 1980, when Reagan was elected, with the second quarter of 1984.

During this period the GNP increased 34 percent. The component of GNP that increased the most was business inventories, which increased from minus \$17.4 billion to plus \$48.5 billion, a 378 percent gain.

Another big winner was gross private domestic investment, which includes housing. It increased 58 percent or from \$397.7 billion to \$626.4 billion. Not surprisingly government defense also increased substantially: by 56 percent to \$221.2 billion from \$141.6 billion.

On the other hand, the net export of goods and services declined dramatically going from a surplus of \$23.3 billion to a whopping minus of \$54.6 billion. Actual

GNP COMPONENTS

(4th quarter 1980 to 2nd quarter 1984)

Component	Percent change
Total GNP	33.6%
Change in business inventories	378.7
Gross private domestic investment	57.5
National defense	56.2
Personal savings	49.2
Durable goods	43.4
Producers' durable equipment	42.1
Federal government purchases of goods and services	41.1
Fixed investment—nonresidential	39.7
Fixed investment—residential	37.8
Personal consumption expenditures	33.0
Personal income	32.2
Final sales	31.0
Imports	30.6
State and local government purchases of goods and services	29.1
Personal tax and non-tax payments	19.8
Non-defense government purchases of goods and services	10.9
Exports	6.0
Net exports of goods and services	-334.3

Sources: Department of Commerce, Bureau of Economic Analysis; Survey of Current Business, National Income and Product Accounts; compiled by NAHB Economics Division.

exports increased 6 percent, but imports jumped 31 percent, offsetting increases in exports by nearly \$100 billion. There were no other losers among the remaining major GNP components.

Growth in personal income just about kept pace with the growth of GNP, increasing 32 percent, but disposable personal income increased at a somewhat higher rate of 35 percent. The really good news about income growth is that personal tax and non-tax payments increased substantially less, only 20 percent. As a result personal savings shot up by 49 percent, and the savings rate increased from 5.1 percent to 6 percent.

Both labor and corporations benefited from the economic improvement between 1980 and 1984. Domestic corporate profits increased by 30 percent, and the number of employed increased by 6 million. Almost all of those new jobs were added in the past year, when 5.5 million workers were added to payrolls.

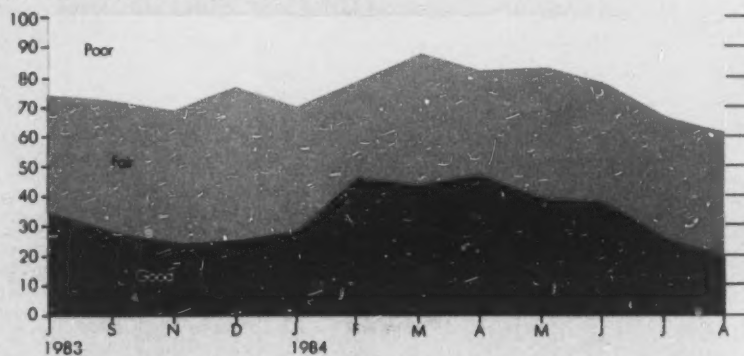
Still, unemployment is higher today than in 1980. The unemployment rate is 7.5 percent compared with 7.2 percent, and the number of unemployed is 8.5 million versus 7.7 million. Unemployment in construction is higher—14.7 percent now, compared with 13.6 percent in 1980.

CONTINUED ON PAGE 13

OUTLOOK/BUILDER POLL

CURRENT SALES

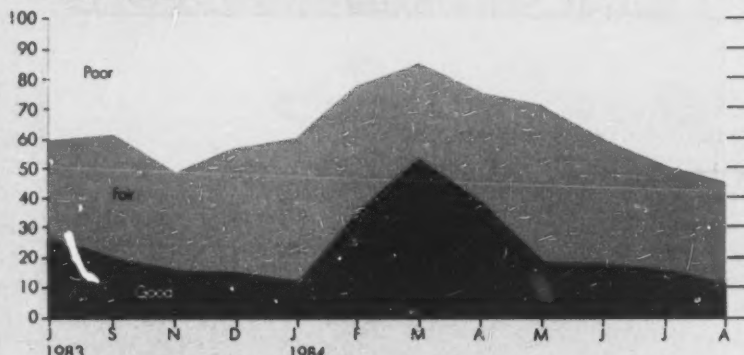
(new single-family detached homes in percent)



Source: NAHB Economics Division

CURRENT TRAFFIC

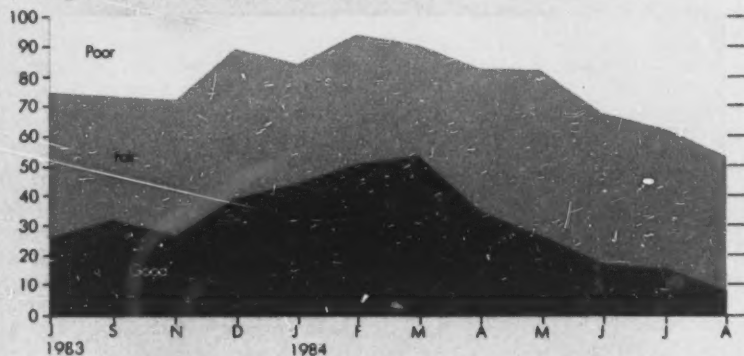
(all new homes in percent)



Source: NAHB Economics Division

6-MONTH OUTLOOK FOR SALES

(new single-family detached homes in percent)



Source: NAHB Economics Division

SALES SLOW DOWN

Until late summer mortgage rate increases had adversely affected the long-term outlook of builders but new home sales had more or less held their own. But, according to the August BUILDER Poll, that has changed. New home sales had dropped sharply by August, and the builders' outlook had deteriorated even further.

The comments of builders polled reflect the change. A Cincinnati builder said, "The market has quieted down in the last 60 days." "Traffic has come to a standstill," said a builder from Illinois, while a builder in Baton Rouge, La., said, "It's the same old story. When interest rates go up, sales go down."

The change in the current sales picture was dramatic. In August more than one-third of the builders polled reported sales were poor, and only 20 percent said sales were good (top chart). In April almost half reported good sales, and fewer than 20 percent reported poor sales.

The drop-off in traffic has been even more severe. Only 10 percent rated traffic good in August, while 55 percent reported traffic as poor (middle chart).

What's even worse, very few builders expect things to improve at all during the next six months. In fact, half think new home sales will be poor over that period (bottom chart).

How bad could it get? Very bad, thinks a Texas builder. He said, "Interest rates put bad builders out of business in 1980 to 1982. They'll put good builders out of business in 1984 and 1985."

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the 6-month sales outlook as either good, fair or poor.

BATTLE PLANS

Most builders have concrete battle plans for dealing with the expected tough times ahead, according to a nationwide survey by the Greenman Group, a residential marketing firm based in Hollywood, Fla. Builders' strategies: product diversification or design upgrades (30%); more sophisticated marketing efforts (24%); new financing or business management approaches (37%). The other 9% were concerned but had no plan of action.

RESALES DOWN AGAIN

Existing single-family home sales fell 6% in July to an annual rate of 2.78 million, reported the National Association of Realtors. It was the third consecutive monthly decline and the lowest level since November 1983.

ROBUST REMODELING

Remodelers expect brisk business during the rest of the year and into 1985, despite relatively high interest rates, according to a recent survey by NAHB's National Council of Remodelers. More than 72% of the

remodelers rated overall remodeling activity as good, and another 22% said it was fair. Although they expected the market to remain about the same through the end of the year, 28% reported a scarcity of affordable financing, and 23% said skilled labor was in short supply.

HEFTY HOUSEHOLD INCREASE

The number of U.S. households ~~gave~~ a hefty 1.5 million between March 1983 and March 1984 compared with only a 391,000 gain the year before, the Census Bureau reported recently. The recession year 1982 was the first time in 20 years that the number of households did not increase significantly. Families accounted for 73% of the 85.4 million total households in 1984, but the average number of persons per household declined to a new low of 2.71.

BIG LOSERS

High interest rates are hurting the big guys too. Fannie Mae's second quarter earnings plunged 83% from the previous quarter to \$2.4 million. The dive was primarily caused by a

negative spread between the yield on the corporation's \$80 billion mortgage portfolio and interest paid on borrowings. Savings institutions also are feeling the squeeze. The Federal Home Loan Bank Board reported that the proportion of FSLIC-insured S&Ls and savings banks that are operating in the red increased from 35% during the second half of last year to 38% for the first quarter of 1984. At the same time, the annualized rate of return on assets of all FSLIC-insured savings institutions dropped to 0.16% from 0.23%.

HOME FIX-UPS BOOM

Residential property owners spent \$7.5 billion on construction improvements and major equipment replacements during the first quarter of this year, according to statistics recently released by the Census Bureau. That's an increase of nearly 40% over the same period last year and the highest first quarter total so far this decade. Owners of one-to-four family units accounted for nearly \$5 billion, or about 65%, of those expenditures.

CONTINUED FROM PAGE 11

The news about inflation somewhat offsets the bad news about unemployment. The Consumer Price Index (CPI) now is increasing at less than 4 percent compared with 13.4 percent in the last three months of 1980. Increases in the Producer Price Index also are more moderate: less than 1 percent compared with nearly 12 percent in 1980. Interestingly the Residential Price Index increased only 14 percent during the period compared with a total CPI increase of 23 percent.

Housing starts, at a seasonally adjusted annual rate, are up 24 percent to 1.898 million units in the second quarter of 1984 compared with the fourth quarter of 1980 when the rate averaged 1.535 million starts. Housing sales during the same period increased 48 percent, and the value of all residential construction was up nearly 80 percent.

Of course all of this camouflages the fact that just two years ago this country went through the sharpest recession in 40 years. Interest rates rose rapidly, housing starts dropped to their lowest level since 1946 and the unemployment rate peaked at 10.7 percent at the end of 1982, with construction unemployment soaring to 22.8 percent.

The recession exacted a heavy toll, but the economy is in much better shape now. Since the recession ended the economy has grown at a good speed.

To a great degree, however, the recovery has depended on federal government expenditures. While government receipts have grown 30 percent from 1980, expenditures have shot up by 62 percent to \$932 billion, the deficit has increased by a whopping 162 percent to \$193 billion and the interest payment on the national debt has increased a staggering 109 percent.

There is a lesson in all of this: Declining interest rates do have an enormous impact on our economy. Coupled with tax cuts, incentives to invest and unprecedented expansionary fiscal policies, they can put people to work and trigger economic growth.

But we can't have our cake and eat it too. Record government expenditures will strain the credit markets and force interest rates higher.

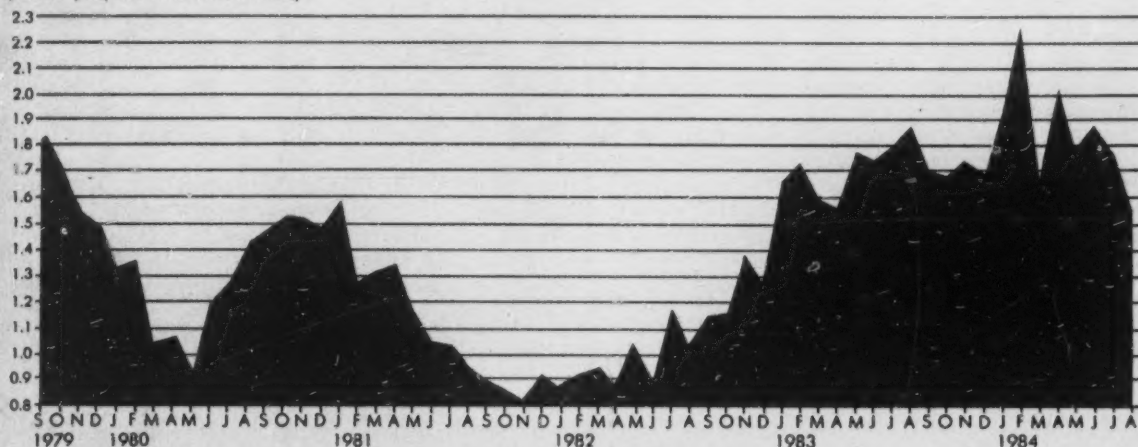
So in reviewing the economic progress of the last four years it's important to look ahead as well. And given the present condition of the financial markets, it would be a miracle if there isn't another round of interest rate increases followed by another recession next year.

Simply put, in spite of the increases in GNP, there is not enough money in the economy to fund the government sector and allow the private sector to continue to grow.

OUTLOOK/STATISTICS

HOUSING STARTS

(seasonally adjusted annual rates in millions)



Source: Bureau of the Census

Starts plunged nearly 13% in August to an annual rate of 1.54 million—the lowest level since December 1982. The culprits: high mortgage rates and a 19.5% drop in multifamily starts for buildings with five or more units. Single-family starts declined 9.7%.

NEW SINGLE-FAMILY HOMES SOLD

(seasonally adjusted annual rates in thousands)



Source: Bureau of the Census

Sales held in July at an annual rate of 630,000, unchanged from the revised June pace, which saw the first rise in four months. The July sales rate was 4% higher than a year earlier.

EFFECTIVE MORTGAGE COMMITMENT RATES

(in percent)

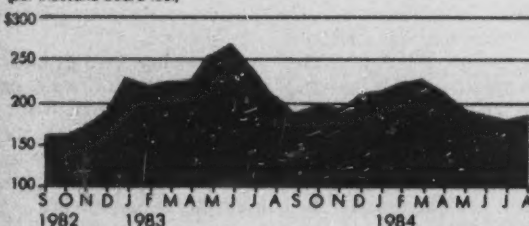


Source: Federal Home Loan Bank Board

Commitment rates on long-term, fixed-rate mortgages fell 22 basis points in August to 15.01%—the first decline in five months. Uncapped adjustable rates declined only one basis point to 13.16%.

FRAMING LUMBER COMPOSITE PRICES

(per thousand board feet)

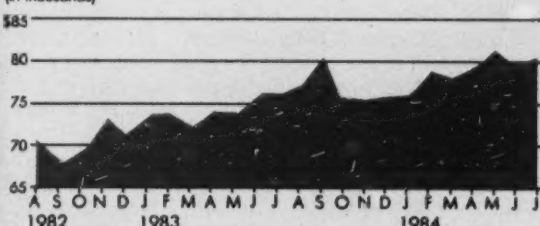


Source: Random Lengths

Halting a four-month decline, lumber prices increased in August by 4% to \$190 per thousand board feet. But the August price was still 6% lower than a year earlier.

MEDIAN PRICE OF NEW SINGLE-FAMILY HOMES

(in thousands)



Source: Bureau of the Census

The median sales price of new homes rose a slight \$400, or 0.5%, in July to \$80,300 from the upwardly revised June price of \$79,900. The July price was nearly 7% higher than a year earlier.

BUILDER VIEWPOINT

National Survey

If only builders could vote in the presidential election next month, Ronald Reagan would win by a landslide margin. He'd get at least 63 percent of the popular vote and sweep to victory over Walter Mondale by almost a six to one margin.

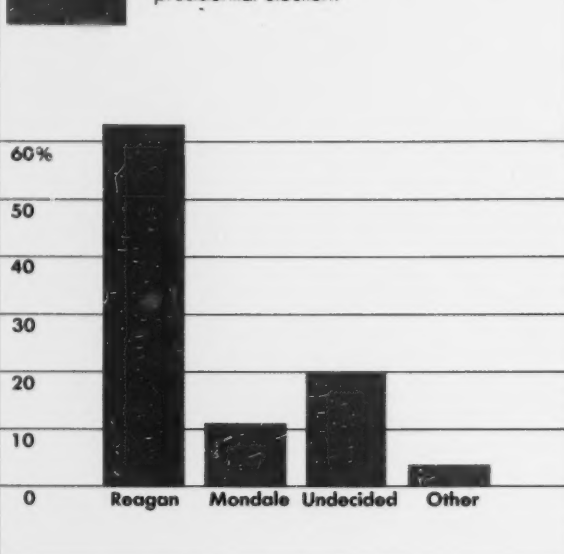
That builders overwhelmingly support the reelection of the president was determined by a telephone survey of 508 builders conducted for BUILDER by Inter-Media Marketing, a research and marketing firm in West Chester, Pa.

The survey also showed that most builders—59 percent—believe the Republican Party is better for housing. (Only 24 percent feel housing stands to benefit more under the Democrats.)

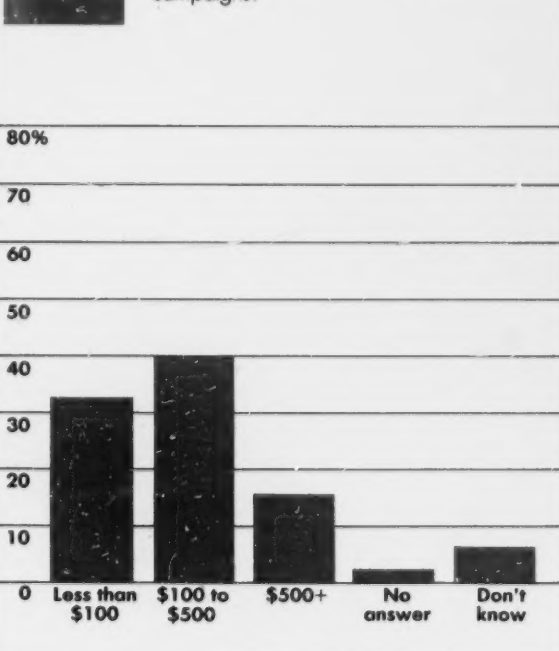
And while slightly more than half the builders surveyed feel the housing lobby is moderately to very effective on the national level, a majority nonetheless thinks housing is losing ground as a national political priority. And they think that even though more than half count their Congressmen as "friends of housing."

Of the major political issues affecting housing, the one, according to the survey, that most concerns builders is the possibility of Congress capping or eliminating the mortgage interest deduction. Close to 90 percent think that would have a very negative impact on housing. Another concern is with the virtual elimination of federally assisted low-income housing production programs; almost half think that has had a negative impact.

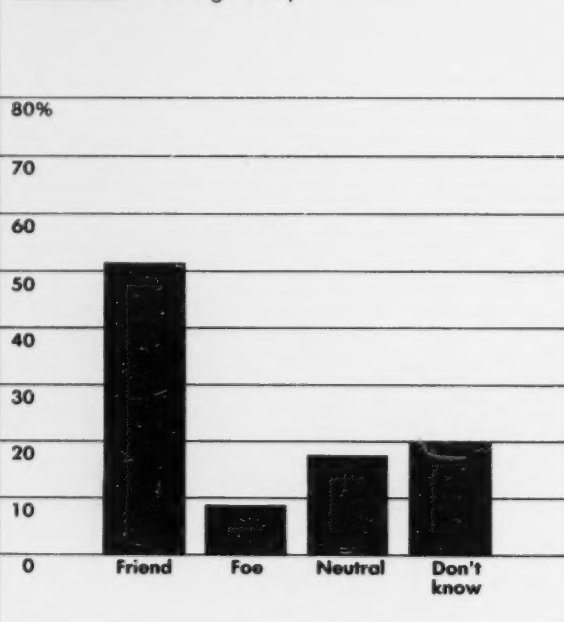
QUESTION: Who will you vote for in the upcoming presidential election?



QUESTION: How much do you contribute to political campaigns?

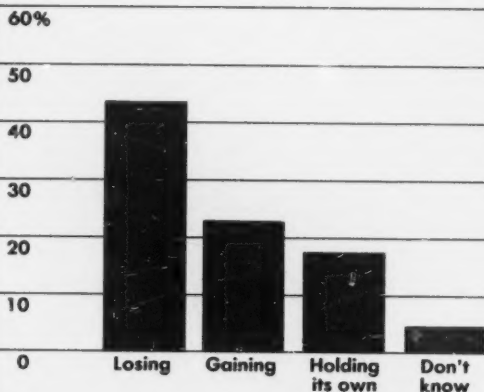


QUESTION: Do you feel that your representative in Congress is a friend or foe of the housing industry?

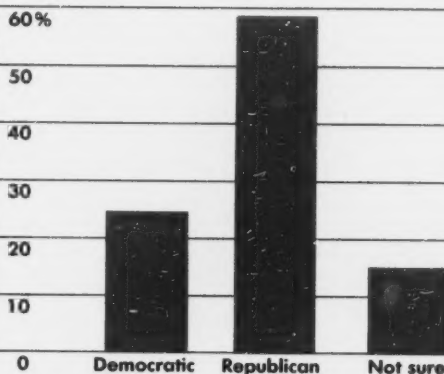


THE ELECTION: HOW WILL HOUSING FARE?

QUESTION: Do you feel that housing is losing or gaining as a political priority?



QUESTION: Which political party do you feel is better for housing?



QUESTION:	Very negative	Moderately negative	None	Moderately positive	Very positive	Don't know	Unfamiliar with issue
Part 1: What would be the effect if Congress were to cap or eliminate the mortgage interest deduction?	81%	4%	1%	2%	3%	5%	0%
Part 2: What impact will the virtual elimination of federally assisted low-income housing production programs have?	18%	23%	36%	6%	6%	8%	0%
Part 3: How would you assess the impact of the recently passed tax legislation?	5%	10%	6%	23%	25%	19%	8%

QUESTION:	Very effective	Moderately effective	Not at all effective	Don't know
Part 1: How effective do you feel the housing lobby is at the national level?	10%	45%	24%	20%
Part 2: How effective do you feel the housing lobby is at the local level?	24%	27%	38%	9%

FINANCE

BANKS SUPPLY MOST CONSTRUCTION LOANS

Commercial banks finance the lion's share of construction loans, and life insurance companies bankroll more permanent loans than any other type of lender.

Those were two not unexpected findings of a recently released survey by the Urban Land Institute (ULI) of financing commitments that developers received during the last quarter of 1983 and the first quarter of 1984. It was ULI's first semiannual survey of real estate development finance.

The nationwide survey covered 287 projects with a total value of \$4.5 billion. Various kinds of development were studied, but office buildings were found to be the most prevalent (36 percent), followed by for-sale housing (14 percent), industrial projects and shopping centers (13 percent each) and apartments (11 percent).

According to the survey, banks financed 57 percent of the total amount of construction loans, followed by S&Ls with 21 percent. ULI also discovered that a few syndicators are now funding construction loans although they still prefer existing, fully leased property.

Another surprise finding was that about 15 percent of the projects received construction financing before permanent financing was lined up, indicating a more liberal attitude on the part of some construction lenders.

However, there also were indications that the distinction between construction lending and permanent financing often was blurred. Some 47 percent of construction loans contained at least one renewal option, and on those loans the average term exceeded 40 months compared with 28 months for the initial loan term. In other words, some construction lenders will give developers an extra year to obtain permanent financing.

As for permanent loans, 40 percent of those lenders also supplied the construction loan, but the average "permanent" loan term was only 10 years.

REAL ESTATE FINANCING SOURCES

Construction loans		Permanent loans	
Lender	Percent of total loan amount	Lender	Percent of total loan amount
Banks	57%	Life insurance companies	29%
S&Ls	21	Banks	27
Public ¹	4	S&Ls	18
Mortgage bankers	4	Public ¹	5
Savings banks	4	Mortgage bankers	5
Life insurance companies	6	Pension funds	7
Financial	1	Savings banks	4
Internal	2	Syndications	2
REITs	0.2	Financial	1
Syndications	0.5	Foreign	3
Foreign	0.2	REITs	0.4
Total	100	Total	100

¹Public financing—projects financed at least 35 percent by tax-exempt financing.

Source: Urban Land Institute

"It appears that the meaning of the term 'permanent financing' is changing," commented Cecil Sears, survey director and a senior research associate at ULI. "Today we are seeing short loan maturities that represent, in effect, only 'holding period' financing."

The survey also found that joint ventures are more prevalent in the South and West: 85 percent of all joint ventures and participating mortgages were found in projects located in the Southeast, Southwest and West even though those regions contained only 67 percent of the projects surveyed.

MARKETS

GENTRIFICATION IS BACK

After a two-year hiatus, gentrification—the takeover of inner-city neighborhoods by young, middle-class home buyers—is once again a major trend in many American cities, according to a special study by *U.S. Housing Markets*, a publication of Dallas-based mortgage banking company Lomas & Nettleton.

Noting that gentrification has three groups—"pioneers" who move in before a neighborhood is perceived as safe, "settlers" who move in as a neighborhood is on the verge of stabili-

zation and "joiners" who move in as the neighborhood becomes fashionable—the report comments that in many cities the joiner phase now is very strong.

"The housing of historical interest on good blocks close to downtown—the brownstones, triple-deckers, Queen Annes, prairie houses, et al.—continues to trade up to blue-chip status," said Walter C. Klein, Jr., senior executive vice president at Lomas. As an example, Klein points to such Brooklyn neighborhoods as Park Slope and Boerum Hill where elegantly restored brownstones that sold for \$25,000 in 1966 and \$150,000 in 1979 now are selling for \$200,000 to more than \$400,000.

Phase two gentrification—the settlers—also is fairly strong, according to the report, but pioneering is notably weak.

"There is a shortage of neighborhood pioneers. Demographic and social changes have reduced the supply of the kinds of young people who became pioneers," Klein reported. Other factors keeping phase one weak are the disappearance of long gas lines and inflated suburban house prices.

In cities where gentrification is particularly strong—Boston, St. Louis,

CONTINUED ON PAGE 96

CONTINUED FROM PAGE 96

most families to buy a house, he feels the concept's time has come. He feels so strongly, in fact, that he rejoined Cenvill last year to structure and administer the overall planning, development and marketing of the concept, not only at Centura Parc but also at developments in other parts of the country.

"If a developer in, say, Cincinnati wants to build a large project for working families like ours," says Bergmann, who also is president of Cenvill Family Centers, "we'll go in and joint venture a child care development center."

Unlike other facilities, which usually are deeded over to residents through their homeowner associations, Cenvill will retain ownership of the child care centers at Centura Parc and anywhere else it builds them and operates them for profit. "We are, in effect, breaking new ground in the building and development industry to answer a pressing national need for child care and working parents," Bergmann says. "Once you let loose of a lifestyle amenity, it tends to go down the tubes."

Lew Sichelman

MARKETS

RENTAL MARKET IMPROVES IN SUNBELT CITIES

"Glut" was the word most commonly associated with the rental apartment market in the Sunbelt last year. With millions of syndication dollars chasing apartment house investments, the popular warm weather cities were overbuilt. Houston overdosed to a 20 percent vacancy rate while Dallas-Fort Worth and Atlanta struggled with 10 percent rates.

A year later, there's news of great improvement. *U.S. Housing Markets*, a survey publication of the Dallas-based mortgage banking company Lomas & Nettleton, finds that apartment vacancies in such cities as Atlanta, Austin, Dallas-Fort Worth, Denver, Orlando, Phoenix and Tampa-St. Petersburg, are leveling off or dropping. Vacancies are now in a comfortable 7 to 8 percent range in many cities, the survey found. Austin, for instance, is enjoying a whopping 5 percent vacancy rate de-

TOP 20 CITIES BY MULTIFAMILY STARTS

City	1984 multifamily starts (projected)
Dallas	50,700
Phoenix	36,300
Atlanta	20,205
Tampa	17,720
Los Angeles-Long Beach	17,500
Houston	14,690
San Diego	11,700
New York City	11,510
West Palm Beach	10,408
Tucson	10,000
Chicago	9,763
Austin	9,750
Orlando	9,550
Nashville	9,003
Fort Lauderdale	8,111
Denver-Boulder	7,646
Seattle	6,930
Riverside	6,400
San Bernardino	
Colorado Springs	6,267
Minneapolis	6,200

Source: NAHB Economics Division

crease; Atlanta is reveling in a 2 percent drop.

Charles W. Wingo, Lomas & Nettleton executive vice president, cites four reasons for the good news: ■ There is a massive undoubling trend, reversing a record doubling up a year earlier. According to recently released Census Bureau data, in the 12 months ending March 1984 there was an increase of 704,000 one-person households; in the year before, these households declined by 104,000. The turnaround began in the fourth quarter, which suggests a continuing trend.

■ Employment growth is substantial in most of the Sunbelt markets, resulting in an influx of new residents. Phoenix, for instance, is flourishing with an 8 percent employment growth rate; Atlanta, Austin and Orlando have a 6 percent rate and Dallas-Fort Worth 4½ percent. "Normally," Wingo points out, "any growth above 2 to 3 percent triggers in-migration."

■ The slowdown in house sales has diverted would-be buyers into the rental market. In Houston, where the for-sale market crashed and the rental market was the most depressed in the country, one large operator claims his average vacancy rate dropped from over 30 percent to just over 10 percent in a little over three months, the survey reported.

■ Many of these markets haven't yet sustained the full impact of the extra-heavy apartment production. Occupancy surveys in Dallas-Fort Worth and Austin, for instance, don't count apartments which have been renting less than six months. That leaves out about 30,000 recently completed units in the Dallas area and some 4,000 in Austin, the report noted. Nearly 60,000 units will be added to the population covered in the Dallas-Fort Worth survey by this time next year, *U.S. Housing Markets* estimated.

While the Sunbelt apartment market revives, Wingo expects the next hot apartment market to be California, where rents are creeping up high enough to encourage new construction. "California could finish the year with as many multifamily starts as Texas," Wingo predicted. In particular, he liked the future for San Diego, which had 6,000 rental completions in the past 12 months and could have 20,000 in the next 12. Vacancy rates in San Diego hover at a very attractive 1 percent and, the survey noted, large new projects are rented up in three months.

FINANCE

MORTGAGE REVENUE BONDS BOOM

After lying dormant for six months, mortgage revenue bonds are booming once again—just in time to give the housing market a welcome dose of below-market mortgage rates.

In less than two months after President Reagan signed the 1984 tax bill reauthorizing the program in July, an estimated \$5 billion worth of single-family, tax-exempt bonds were issued by state and local governments.

That compares with \$10.7 billion issued during all of 1983 before authority to issue the bonds ran out at the end of the year.

The latest batch of bonds will finance roughly 100,000 home sales over the next 12 to 18 months, said Scott Brown, an analyst with NAHB's mortgage finance division. About half will be new homes.